Opportunity Recognition in Family Firms in the Context of Relationship Conflicts between Managing Family Members

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In times of rapidly changing markets, successful firms need to be flexible and open to renewal. Only active and attentive firms are able to keep pace with the transitory nature of consumer needs, technologies, legal requirements and the likes. Regardless of whether a firm seeks to play the avant-garde role in its sector, or whether it is merely fighting for survival, the ability to identify and exploit opportunities that come about when market situations change is essential to meet these challenges. This ability is called opportunity recognition (OR).

To date, research on OR is rather general. As can be concluded from a recent literature review (Frank and Mitterer, 2009), OR in family firms has not yet been specifically investigated. This, however, would be a valuable contribution to theory and practice for two reasons. Firstly, family firms make a significant contribution to most countries. Secondly, and more importantly, family firms have distinctive characteristics. Typical characteristics of family firms are flexibility, risk aversion, long-term goals, strong ties with stakeholders and stability (e.g. Poza, 2010). These distinct characteristics of family businesses originate from the interplay between family and firm (von Schlippe and Frank, 2013). The tight interconnection of two social systems can have positive, as well as negative consequences for a firm's success. A family firm's specific properties, if used wisely, can create a competitive advantage. However, they are also a source of conflicts which can create competitive disadvantage. Although non-family firms are not immune to conflicts, family firms are even more vulnerable. Emotions that are usually present in family relationships can easily be carried to the business due to the tight connection between the two systems and can thereby put the firm in danger (Weismeier-Sammer et al. 2013; Frank et al. 2011). Considering the peculiarity of family firms, the obvious question is, whether findings of OR research have the same validity for family firms as for non-family firms. The economic significance of family firms and the uniqueness of their social networks demand specific research on OR in family firms. With the ambition of launching discourse about this topic, this article provides basic reflections on the effect of relationship conflicts on OR in family firms.

> A family firm's specific properties, if used wisely, can create a competitive advantage. However, they are also a source of conflicts which can create competitive disadvantage. Although non-family firms are not immune to conflicts, family firms are even more vulnerable. Family firms are especially vulnerable to relationship conflicts due to the emotional component that is translated from the family to the business sphere.

According to Frank and Mitterer (2009), research on opportunity recognition can be subdivided into four schools: the *human capital school*, the *social capital* or *network school*, the *cognitive school* and the *school of learning*. These approaches differ in their conception of the influencing factors of OR. The *human capital school* is based on the assumption that knowledge is a precondition for information about changes to be selected and processed in a way that opportunities are recognised. Thus, more the members an enterprise has, the more knowledge is available and the higher the chances of OR. The *social capital* or *network school* regards the social network in which the entrepreneur is embedded as crucial for OR. Depending on the quality and size of the social network, access to information about opportunities is either facilitated or moderated. According to the *cognitive school*, entrepreneurs have distinct cognitive skills which equip them with the ability to identify and exploit opportunities. The possession of these skills distinguishes entrepreneurs from non-entrepreneurs. The *school of learning* argues that OR can be developed in an individual or organizational learning process by constantly elaborating on and deciding on the pursuance of vague opportunities. Vague, in this context, means that opportunities have a rather intuitive and fuzzy character. The course of the learning process is based on the available knowledge and on cognitive skills. In this sense, the *school of learning* is a combination of the *human capital* and the *cognitive school*. For the purpose of reflecting OR in the context of relationship conflicts, the social capital perspective seems to be the most suitable approach, since it allows for explaining the dynamics of social relationships. Thus, in this paper we use a social capital lens.

Essentially, the literature differentiates three different types of social conflict, namely task, process and relationship conflicts (Jehn and Mannix, 2001). Task conflicts result from disagreement about

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goals or strategy. Consequently, there is no consensus about the question *what* has to be done. Unlike task conflicts, process conflicts result from disagreements about the question *how* things have to be done, even if the persons involved agree on a common goal. Relationship conflicts result from negative emotions and are interpersonal conflicts. Usually, this type of conflict is damaging and difficult to solve since it is often latent and may show itself on the surface in disguised forms such as power struggles. Family firms are especially vulnerable to relationship conflicts due to the emotional component that is translated from the family to the business sphere.

From the perspective of the social capital school, the embeddedness of the entrepreneur in a social network is responsible for high, or low, OR.The same applies if there are two or more entrepreneurs who form a management team. In family firms, the managing family members are usually strongly tied to the members of a wide, trustful social network. The familial sphere that is structurally coupled with the business and the orientation towards long-term goals foster the establishment of close relationships with employees, customers, partners and other interest groups (Poza, 2010: 15). Additionally, the formation of strong ties is facilitated by the continuity of leadership, which often lasts for a generation in family businesses. The strong ties can provide fertile ground for OR. Active communication with customers and suppliers, on a regular basis, increases the awareness of their needs. Feedback can be utilized and converted into new ideas for innovations. Thus, information exchange with stakeholders opens ways to OR. When business partners communicate openly with each other, the combination of information, which was worthless without the other, could reveal entrepreneurial opportunities when put together. The same is true for employee relations. The more open the communication, the higher the chance that parts of the information puzzle fit together. Due to the strong ties and since communication in the social network of family firms tends to be informal and direct, the probability of OR rises according to the social capital perspective. Likewise, the exploitation of opportunities is easier since network members can provide mutual support. Relationships that are built on trust facilitate the process of opportunity exploitation and decrease the risk and damage in the case of failure. From this perspective, family firms have a high potential for OR.

However, relationship conflicts between managing family members can hinder the positive effects of a social network. If relations between managing family members in family firms suffer from a high degree of relationship conflict, this will have a negative impact on OR. Since relationship conflicts originate from negative emotions towards another person, they harm the quality of social networks. Managing family members are central figures of a family firm as they do not only form the hierarchical top of the organisation but also serve as role models for employees and significantly shape the organisational culture. If interpersonal conflicts between family members working in the family firm arise, this can harm the firm's social network and especially the chance that parts of the information puzzle that lead to OR fit together. When members of social systems interact with each other they create meaning through communication. Communication constitutes the culture of the system. Relationship conflicts also represent a form of system, in this case a "parasitic system" that shapes the system's culture (family and business). The culture, on the other hand, influences the behaviour of system members. Consequently, conflicts between only two members of the firm inevitably have an effect on the entire system. Relationships that are characterised by mistrust, anger, envy, frustration and other negative feelings are destructive and taint the organisational culture. As a consequence, the flow of fruitful communication is diminished. Information exchange, which is so essential for OR, decreases and the social network cannot develop the potential strength of a healthy family firm network.

Conclusion

Family firms build a fertile ground for OR due to the deep embeddedness of family members in a wide and trustful social network. However, this potential is exposed to certain risks stemming from relationship conflicts that may arise between managing family members. Family members working in the family firm are especially vulnerable to relationship conflicts because the familial sphere brings emotional components into business issues. Relationship conflicts can infect both systems, family and business, and stall communication which is crucial for OR.Therefore, family firms should promote conflict resolution in the firm and family to ensure that potential advantages that arise from strong networks can be realised. The peculiarity of family firms, such as strong ties to stakeholders and the vulnerability to relationship conflicts, calls for special management techniques which satisfy both, family and firm needs. Further research on OR in family firms will be necessary to deal with the specific conditions that family firms entail.

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